



United States  
Department of  
Agriculture

Farmers  
Home  
Administration

Washington  
D.C.  
20250

November 2, 1981

SUBJECT: Handling Borrowers' Requests to Store Cash Crops

TO: All State Directors, Farmer Program Chiefs,  
District Directors and County Supervisors, FmHA

We have received numerous inquiries concerning our policy on the storage of cash crops and postponing crop sales until after the borrowers' installment due date(s). To assure a uniform handling of borrowers' requests to store commodities and delay sale, you will be guided by the following criteria:

Borrowers With Approved Marketing Plans

Borrowers who have marketing plans that were approved at the beginning of the plan year that involve holding or storage of crops may be permitted to follow their plan. The farm and home plan must have been documented to indicate approval of this method of marketing. Borrowers in this category will be encouraged to obtain a Commodity Credit Corporation (CCC) loan, if available, and apply the proceeds on their FmHA scheduled installments as set forth in Table K of the farm and home plan. The requirements of FmHA Instruction 1962-A, §1962.30 (e) will be met.

Borrowers Without Approved Marketing Plans

Borrowers who do not have approved marketing plans which involve holding or storage of crops may be authorized to hold or store crops provided they:

1. Develop a sound marketing plan in conjunction with their revised farm and home plan.
2. Obtain a CCC loan on eligible commodities.
3. Apply CCC loan and crop proceeds on their FmHA scheduled installments as set forth in Table K of the farm and home plan.
4. Sell all other crops as originally planned.

If borrowers cannot or will not obtain a CCC loan they will be required to market their crops as originally agreed to in their farm and home plan for the year.

Factors to Consider in Counselling with Borrowers on Whether to Store Crops

Normally we expect borrowers to pay their loans in accordance with their repayment schedules. Careful consideration of all economic factors involved should be given to a borrower's requests to store commodities. Such factors include, but are not limited to the following:

EXPIRATION DATE: September 30, 1982

FILING INSTRUCTIONS: File Preceding  
FmHA Instruction 1962-A



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Secretary of Agriculture, Washington, D.C. 20250

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1. Will the borrower's cash flow permit storing?
2. What do future prices indicate on profitability of storage?
3. Has the borrower locked in a better profit by cash forward contracting or is the borrower just speculating on a higher price in the cash market?
4. What effect will a shift of income from one tax year to the next have on income taxes?
5. How much will the anticipated increased price be reduced by storage costs such as interest, extra drying costs, shrink and cost of commercial grain storage facilities? The following is an example of the cost to store one bushel of \$2.50 corn for one month:

- a. Interest cost depends on the current interest rate. At 14.5% interest it costs 3¢ per bushel per month to store \$2.50 corn.

$$\frac{\$2.50 \times 14.5\%}{12 \text{ months}} = 3\text{¢}$$

Average Cost to Store 1 Bushel of Corn for 1 Month

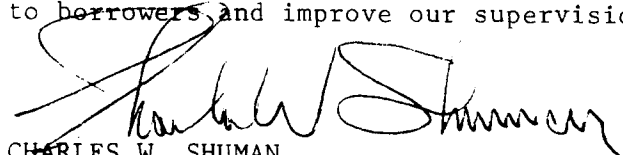
Interest for 1 month	3¢
Extra drying cost (one time cost)	3¢
Shrink and storage loss (one time cost)	3¢
<u>Commercial grain storage charge per month</u>	<u>2¢</u>
Total cost to store 1 bushel of \$2.50 corn for the <u>first month</u>	11¢
(Cost 5¢ per month per bushel thereafter).	

- b. To maintain quality in extended storage, corn should be dried from 15.5% moisture to around 13.5 moisture.
- c. Shrink and storage losses are 1% initially and .1% per month thereafter for corn.

Financial Management

The County Supervisor should maintain a close contact with the ASCS county office staff in order to be aware of when the CCC loan is paid in full. When the CCC loan is paid in full, the County Supervisor should immediately contact the borrower for additional collections. FmHA's lien will be restored (See FmHA Instruction 1962-A, §1962.30 (e)).

The criteria set forth in this AN falls within the realm of effective farm and home planning. It is intended to strengthen our financial management guidance to borrowers and improve our supervision and servicing activities.



CHARLES W. SHUMAN  
Administrator